



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2011 Biennium

<b>Bill #</b>	HB0261	<b>Title:</b>	Revise income tax laws related to certain exemptions and deductions
<b>Primary Sponsor:</b>	McGillvray, Tom	<b>Status:</b>	As Amended

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	\$0	(\$1,503,000)	(\$2,782,000)
<b>Net Impact-General Fund Balance</b>	<u>\$0</u>	<u>\$0</u>	<u>(\$1,503,000)</u>	<u>(\$2,782,000)</u>

**Description of fiscal impact:** Beginning with tax year 2011, this bill would inflation-index the limit on the itemized deduction for federal income tax.

### FISCAL ANALYSIS

#### Assumptions:

- Taxpayers are allowed an itemized deduction for federal income taxes paid during a year, up to a cap. Under current law, the cap is \$10,000 for a married couple filing a joint return and \$5,000 for single taxpayers and a married taxpayer filing a separate return. This bill would index these caps for inflation, beginning with tax year 2011.
- The following table shows projected caps for federal income tax deductions under this bill for tax years 2011 through 2013:

Limit on Deduction for Federal Income Tax		
Tax Year	Joint Return	All Other
2011	\$10,300	\$5,150
2012	\$10,550	\$5,270
2013	\$10,800	\$5,400

3. The income tax revenue estimating model was modified to reflect this change and run for tax years through 2013. The differences in tax liability for all filers for 2011 through 2013 are as follows:

<b>Tax Year</b>	<b>Difference In Tax Liability (\$ million)</b>
2011	-1.503
2012	-2.782
2013	-4.232

4. Individual taxpayers affected by this bill would see relatively small changes in tax liability in the early years, and few taxpayers would change their withholding or estimated payments in response. Instead, they would receive larger refunds or make smaller payments when they file their returns. The changes in tax liability shown for tax years 2011 and 2012 would translate into the same reductions in revenue for FY 2012 and FY 2013.
5. Changes to tax returns and instructions would be made as part of the annual update process, with no additional cost.

	<b><u>FY 2010 Difference</u></b>	<b><u>FY 2011 Difference</u></b>	<b><u>FY 2012 Difference</u></b>	<b><u>FY 2013 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	\$0	(\$1,503,000)	(\$2,782,000)
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$0	\$0	(\$1,503,000)	(\$2,782,000)

#### **Long-Term Impacts:**

1. The revenue reduction from this bill would grow faster than the income tax as the difference between the inflation-adjusted and unadjusted caps on income tax deductions grows over time.

#### **Technical Notes:**

1. Section 2 inflation-indexes the limit on the itemized deduction for federal income tax. Under current law, the limit for a married couple filing a joint return is twice the limit for other taxpayers. This bill indexes and rounds the two limits separately. With this procedure, the limit for married couples filing a joint return will not always be exactly twice the limit for other taxpayers.

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*Sponsor's Initials*


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*Date*


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*Budget Director's Initials*


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*Date*